Preview: BoC Rate decision, MPR, and Governor Macklem text due at 14:45BST/09:45EDT, Press Conference at 15:30BST/10:30EDT

SUMMARY: The BoC is expected to hold rates at 2.25%, according to all 41 economists surveyed by Reuters. More than 80% (33/41) see rates unchanged in 2026, slightly up from 76% in March. At its last meeting, the central bank agreed to keep its options open amid increased upside risks to inflation and downside risks to growth from the Middle East conflict. The governing council removed language saying it "judges the current policy rate remains appropriate". That was reinforced by March headline CPI and PPI readings, which showed notable acceleration due to surging energy prices. The BoC's average CPI measure also showed its first acceleration YTD, to 2.37% Y/Y from 2.33%. Adding to uncertainty over the Middle East, free trade negotiations with the US and Mexico are up for renegotiation, with the 1st July deadline approaching. Before the war, consumers had become less negative about their spending plans than in the previous quarter as downward pressure from trade tensions eased. However, that has likely reversed given the surge in gasoline prices. Employment showed a modest rebound in March in line with expectations, as part-time and full-time employment showed little change, leaving the unemployment rate steady at 6.7%. Money markets expect one rate hike by year-end, while only 14/34 economists surveyed by Reuters see that outcome by 27th March.

EXPECTATIONS: The BoC is expected to hold rates at 2.25%, according to all 42 economists surveyed by Reuters. More than 80% (33/41) see rates unchanged in 2026, slightly up from 76% in March. Claire Fan, a senior economist at RBC, said: "Because of softening core inflation, it does give the Bank of Canada a lot more room to be flexible and patient. They can wait for actual concrete signs of risk of inflation climbing higher, broadening and persisting" before making a decision. According to median forecasts, inflation is expected to average 2.9%, 2.7% and 2.5% in the current and upcoming quarters, about 50bps higher than in January. This has likely bolstered the case for the 14/34 economists who see a rate hike by the end of March next year. Money markets currently see rates unchanged in April but one rate hike by year-end.

RECENT DATA: Data since the March meeting has shown mixed inflation readings. Headline CPI accelerated M/M amid higher energy prices from the Middle East conflict, to 0.9% M/M from 0.5%, below expectations of 1.0%, and to 2.4% Y/Y from 1.8%, above expectations of 1.9%. Consumer energy inflation rose to 3.9% from -9.3% in the prior month. The BoC average of common, median and trimmed CPI rose to 2.37% from 2.33%, its first acceleration YTD. PPI rose 2.4% in March, above expectations of 1.8% and a previous 0.6%, again driven by a surge in energy and petroleum prices. Meanwhile, job growth showed a very modest rebound in March, as expected, rising 14.1k from a previous -83.9k, as part-time and full-time worker numbers showed little variation. The unemployment rate remained at 6.7%, despite expectations for an uptick to 6.8%. The Ivey PMI dropped to 49.7 in March from 56.6, below expectations of 57.2, weighed by a sharp increase in the prices index and drops in the inventories and suppliers indices. Of concern, the BoC's SCE for Q1 2026 showed that before the war in the Middle East, consumers' spending plans remained muted, held back by concerns about high prices and economic uncertainty, both of which would have deteriorated since the war began.

COMMENTARY/MPR: The BoC omitted language in its statement saying the current policy rate remains appropriate, likely because of the increased economic uncertainty from the Middle East war. The central bank noted inflation risks had grown while risks to growth looked tilted to the downside, and said it was too early to assess the conflict's impact on growth. Looking ahead, members expected total inflation to rise because of higher gasoline prices. That said, Macklem added that the council would look through the war's immediate inflationary impact, but if energy prices stay high, "we will not let their effects broaden and become persistent inflation". As such, the governing council has agreed to keep options open.